END OF
TITLE

MASTER
NEGATIVE
NO. 94-82314-11

COPYRIGHT STATEMENT

The copyright law of the United States (Title 17, United States Code) governs the making of photocopies or other reproductions of copyrighted materials including foreign works under certain conditions. In addition, the United States extends protection to foreign works by means of various international conventions, bilateral agreements, and proclamations.

Under certain conditions specified in the law, libraries and archives are authorized to furnish a photocopy or other reproduction. One of these specified conditions is that the photocopy or reproduction is not to be "used for any purpose other than private study, scholarship, or research." If a user makes a request for, or later uses, a photocopy or reproduction for purposes in excess of "fair use," that user may be liable for copyright infringement.

The Columbia University Libraries reserve the right to refuse to accept a copying order if, in its judgement, fulfillment of the order would involve violation of the copyright law.

Author:
U.S. Federal Trade Commission
Title:
Monopoly and competition in steel
Place:
[Washington, D.C.]
Date:
[1939]

94-82314-11
MASTER NEGATIVE #

COLUMBIA UNIVERSITY LIBRARIES
PRESERVATION DIVISION

BIBLIOGRAPHIC MICROFORM TARGET

ORIGINAL MATERIAL AS FILMED - EXISTING BIBLIOGRAPHIC RECORD

BUSINESS
320
Un375

U. S. Federal trade commission.
... Monopoly and competition in steel. Submitted by the Federal trade commission ...
[1939]
2 p. l., 14 numb. l. 27cm.

Reproduced from type-written copy.
"Release F-6."

RESTRICTIONS ON USE:

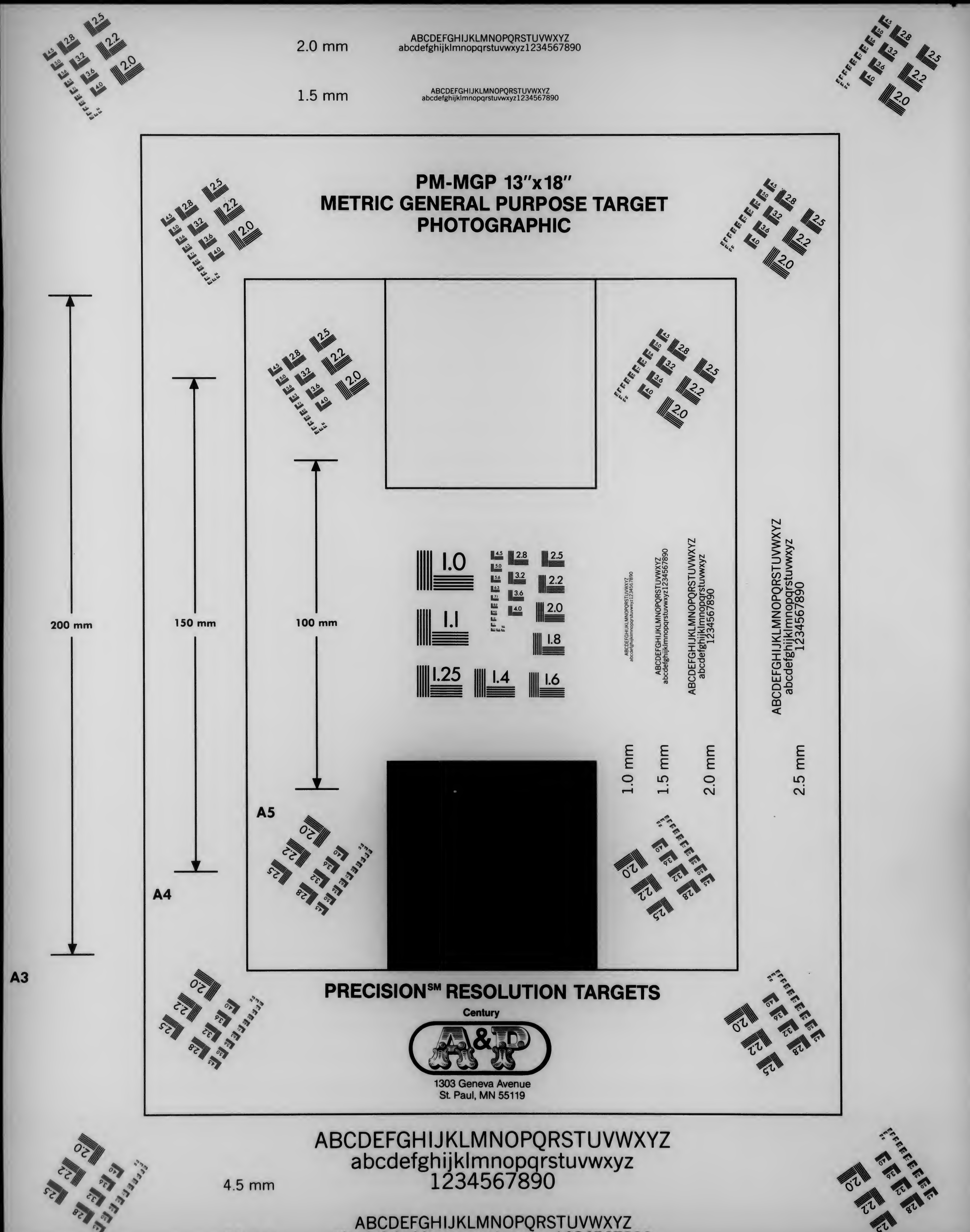
TECHNICAL MICROFORM DATA

FILM SIZE: 35mm   REDUCTION RATIO: 12X   IMAGE PLACEMENT: IA IIA IB IIB

DATE FILMED: 12-15-94   INITIALS: PB

TRACKING # : MSH 03214

FILMED BY PRESERVATION RESOURCES, BETHLEHEM, PA.


2.0 mm
ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890
1.5 mm
ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890
PM-MGP 13"x18"
METRIC GENERAL PURPOSE TARGET
PHOTOGRAPHIC
200 mm
150 mm
100 mm
A5
A4
A3
1.0 mm
1.5 mm
2.0 mm
2.5 mm
PRECISION℠ RESOLUTION TARGETS
Century
A&P
1303 Geneva Avenue
St. Paul, MN 55119
4.5 mm
ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz
1234567890
3.5 mm
ABCDEFGHIJKLMNOPQRSTUVWXYZ
abcdefghijklmnopqrstuvwxyz1234567890

U.S. FEDERAL TRADE COMMISSION.

MONOPOLY AND COMPETITION IN STEEL.

D320 - Un375

D320 Un375

Columbia University
in the City of New York

LIBRARY

School of Business

Columbia University Library
School of Business
MAR 15 1939
Through the President's Office

CAUTION: For the convenience of the Press only, to be released when introduced in the record.

MONOPOLY AND COMPETITION IN STEEL

Submitted

by the

Federal Trade Commission

COLUMBIA UNIVERSITY LIBRARY

Release F-6
3/7/39

MAR 8 1943 FCR/Hec

TABLE OF CONTENTS

MONOPOLY AND COMPETITION IN STEEL

The following outline describes the price relationships which the Commission has reason to believe exist in the steel industry. The statements are based on investigations of the industry made by the Commission at various times. They are presented for the preliminary consideration of the Temporary National Economic Committee, and will be further developed as the Committee's investigation proceeds. Although some changes in method were introduced in June 1938, the fundamentals of the steel pricing system were not affected.

Briefly, the basing point system in steel operates as follows: For each particular steel product, a number of points have been selected at which "base prices" are quoted. The delivered price at any other point is computed by adding to the base price at each basing point the railway freight charge from that point to point of delivery and adopting the smallest of these totals. The steel may actually be shipped from a great distance or from next door to the customer's plant, but the delivered price is the same in all cases, that is, the customer pays as if the steel were always shipped from the "governing" basing point, i.e., that giving the lowest delivered cost according to the formula.

This is the skeleton outline of the system. In practice it is complicated by the existence of different basing points, for different steel products, and by a system of "extras", identical for all companies, representing special quality, size, shape, or quantity. In effect, however, the formula enables all steel producers, without the necessity of special consultation, to arrive at an identical delivered price for any order of steel delivered at any point in the United States. With occasional lapses, the system works, and the buyer normally receives identical quotations from all bidders.

The original basing point system in the industry was the so-called Pittsburgh Plus, under which steel was sold at a delivered price equal to the Pittsburgh price plus freight from Pittsburgh. Other basing points have since been established, and the present is a multiple system.

This report deals with the basing point system as the method for establishing the identical delivered prices found in the steel industry. It should be made clear that the objective of this examination is not to find some other mechanism for producing the same effect, but to consider the effects of identical delivered prices, whether derived from the use of a basing point formula, or by any other method.

VISIBLE EFFECTS OF IDENTICAL DELIVERED PRICES

When the basing point system is operating smoothly, it appears that quotations on steel of a given quality and quantity are identical at any given point of delivery. The formula, covering base price and rail freight from the governing basing point, is known to all members of the industry. Mills located at points other than the basing point use the standard formula as if they were located there.

To the customer, at his location, there is no difference between the quality and delivered price offered by all the bidders. Occasional variations from this perfect identity are observed, but only during short periods when there was a temporary flurry of price cutting. Such flurries have been an incident of practically all price-fixing systems. They occurred even in the days of signed price agreements in the steel industry.

On the surface, the producers approach the consumer with a united front. Competition in such crude matters as price and quality has been put aside, and all that seems to remain is a gentlemanly emulation in the art of making friends and influencing people.

Secret discounts or concessions in quantity or quality may continue to exercise an influence of a more material character in the case of strong and influential private purchasers. Small and medium sized private buyers pay the formula price. Public bodies, not being permitted to accept secret favors, have no legal reason for choice, there being no lowest bidder, and are reduced to making awards by lot.

The available evidence indicates that secret violation of the identical delivered price system is seldom of such importance as to prevent the general economic effects of controlled prices.

Since the delivered price quoted is the same among bidders with many different freight costs, the net amount received or mill realization varies among the bidders, depending on their distance from the point of delivery.

A plant not located at a basing point will charge even to customers located at its own door the base price plus freight from the governing basing point. But in selling to a customer located at the basing point it will quote only the base price, and will deduct the actual freight from its plant to the customer at that basing point, leaving as a net return the base price minus freight.

A plant located at a basing point will sell its product at all points within the area where the delivered price is governed by that basing point, at the same base price, plus the actual rail freight to point of delivery. When bidding outside this area, however, it must "absorb" a part of the freight, which means accepting a lower net price in order to match the delivered price which is computed by the standard formula from some other basing point. That is, outside the area governed by its own basing point, the basing point mill will accept varying net prices in the same way as a mill not located at a basing point.

Thus the immediate effect of this artificial price system is to distort the area of distribution of each mill, in such a way that its net return per ton of steel from different customers is generally different.

The customer who is nearest the place of production does not necessarily receive the lowest delivered price for steel.

If the nearby place of production is not a basing point, the customer located there must nevertheless pay the equivalent of rail freight from the governing basing point.

Studies of actual sales of steel show that mills deliver steel in the neighborhood of other mills that are producing steel of the same kind, and these in turn ship their product to the neighborhood of their rivals, or even beyond. Physically this cross-hauling is a pure waste; it could be justified only if some other form of economy were to be obtained by means of an interchange of identical products.

Between two interconnected power systems, for example, power may flow in one direction at one time and back again at another, because of differences in the timing of peak loads. But no such excuse can be found for cross-hauling in steel. Occasionally an abnormal demand for steel may appear first in one place and then in another, so as to overload the nearest producing plants and require importation from others. The constant cross-hauling of steel, however, is a different matter. It is a continual and simultaneous process. It unquestionably shows that mills do not ordinarily supply the nearest customers before looking to more distant ones. The cost of the wasted freight must be borne in the first instance by the injured communities and in the last analysis by the general public in one form or another. The cost is actually covered by maintaining base prices so high that a producer can ship steel for long distances past another producing mill and still find the business worth taking.

Finally, the evidence at hand shows what is inherent in the pricing plan, that a customer not located at a basing point but located near a steel mill is deprived of the benefit of the low haulage cost from the nearest mill to his door. The neighboring mill will, to be sure, offer him a bid, but no better than he can get from mills farther away. Under this pricing system he would be as cheaply supplied if the nearby mill did not exist.

To call the relation of a mill to its nearest customers a "local monopoly" is to confuse the issue. The correct term is "advantage of location"; it represents a natural physical fact: low cost of transportation. This is no more properly called monopoly than would be the possession of a low-cost plant or an unusually efficient personnel. Since the avowed purpose of competition is to allow the consumer the use of the lowest-cost methods, any economy in the physical factors of production, including economy of transportation, is a legitimate competitive factor.

Moreover, a customer so located that steel can be shipped to him by barge or by truck, at less than railway freight costs, is not usually allowed the benefit of this advantage. The mill may ship by water, or by truck, but with relatively few exceptions the quoted price is based on rail freight. It would seem that the reason for using rail freights in all cases is that only by so doing can identical delivered quotations be conveniently assured.

The system appears to be designed not as a means of computing actual delivered costs, but of assuring the absence of price competition at any point of delivery. This situation must involve a general and continuous waste, since it would obviously be more efficient if customers were able to buy at a lower cost from the nearest available source. It is a system that makes a profit for the producer by wasting the customer's money.

IMPLICATIONS OF IDENTICAL DELIVERED PRICES

It is reasonable to assume that the industry succeeds or expects to succeed in making the customer pay for the wastes of cross-hauling, and enough more to furnish a motive for the self-discipline involved in an identical delivered price system. The base prices established must be intended to produce a profit on the business as a whole, even though as an incident they may require a company to accept a comparatively low net return on some particular sale.

Experience indicates, in fact, that when the system temporarily breaks down, prices fall.

The pricing system in steel is often called an "umbrella", the implication being that it holds up a price level under which mills of all degrees of efficiency or obsolescence find shelter. There appears to be a tendency for obsolete mills to survive after new and more efficient plants have entered the field, resulting in excess capacity and a low average percentage of operation. As will be noted later, the value of an old plant would be more easily defended if it actually served a neighboring market at a net saving to the customers.

Overequipment in the industry, with failure to eliminate the least efficient plants, tends to discourage technological progress, but its chief effect appears to have been to accustom the industry to the idea of a low ratio of production to capacity. The industry has felt entitled to a price level that will allow it to make a profit when operating at less than 40 per cent of capacity, although this required percentage increased with the base price reductions of June 1938.

But since the capital costs are a large factor in steel making, in effect the public is required to pay, on a given tonnage of steel, the capital charges on a larger plant investment than is needed to produce that tonnage. The price flurry of June 1938, reduced base prices; the industry was forced to operate at better than 50 percent of capacity to make a profit. This change was regarded by the industry as deplorable, though it led to large increases in production and consequently in employment. "'The situation was competitive', Mr. Grace said, and he hoped that it had been cured" *

If the concept of price adopted in Pittsburgh Plus case in 1924 is sound under the present law, the basing point practice may be regarded as one of systematic price discrimination designed to serve the interests of the sellers as a group, against the interests of such buyers as desire price competition, and of consumers in general. Such systematic discrimination should be distinguished from a different type--the sporadic, unorganized price discrimination found in an unprotected competitive market where unfair practices are permitted.

Discrimination in the absence of an identical delivered price system takes the sporadic form of charging profitable prices in nearby territory and

---

* New York Times, October 28, 1938.

accepting a lower net return on sales to customers who are in a position to buy from a rival's territory. This may easily become price raiding, a use of financial power to overwhelm a financially weaker competitor. By raiding one small competitor after another, a powerful company can acquire numerous plants and destroy competition over a large area, becoming a monopoly of the old fashioned type in which control over prices is obtained by ownership of the bulk of the business. This undesirable situation can be expected to occur if competition without protection against price raiding should be reestablished in industries now under monopoly control.

The custom of charging an extra price for small quantities of steel over the price for large quantities requires the small buyer to pay more for his material, but is not necessarily discriminatory in the sense used in this discussion, since there may be a difference in cost for producing and handling small items. If, however, the difference charged is excessive, it becomes a form of discrimination.

The fact that discrimination in an unprotected market may lead to monopoly is the origin of the opinion, often sincerely held by business men, that any kind of competition must inevitably destroy itself, and that only by controlled prices can individual businesses be actually preserved. The Commission regards this line of reasoning as fallacious and disastrous.

The truth should be recognized, that a free market must be protected to prevent price discrimination, or it is likely to permit the survival of the financially strongest rather than of the most efficient. But to sanction private price controls such as those in the steel industry as a protection against price raiding is to establish monopoly by agreement for the sake of avoiding monopoly by capture.

The identical delivered price system in steel preserves the shadow of competition by giving up the substance.

The courts have long since declared it unlawful for a great combination to cut prices in one territory in order to destroy a local competitor, meanwhile making up the deficiency by the profits of other sections. A similar principle should be applicable in a vertically integrated company.

The Federal Trade Commission found in the Pittsburgh Plus Case that the American Bridge Company could underbid its competitors because of being able to buy materials from fellow subsidiaries of the U. S. Steel Corporation, at lower prices than other fabricators could obtain them. Since this finding was entered, several other large steel producers have acquired fabricating companies, and thus have opportunities for a similar advantage over independent fabricators.

If such camouflaged discrimination is to be prevented, it would be necessary to insist that separate accounts be kept for all parts of a vertically integrated company as if they were independent concerns, and that these accounts be subject to visitation by representatives of the government.

INDICATORS OF MONOPOLY

In a heavy staple industry, such as steel, there are certain indicators that may be taken as manifesting the existence or absence of monopoly.

If the demand for steel in a certain district is larger than the neighboring mills can supply, those mills should be running at capacity, unless their costs are higher than the cost of outside mills by more than the freight. If mills are running part time, while steel is being shipped in, monopoly is indicated.

If the supply of steel in a district is larger than the local demand can absorb, there should be no steel coming in, but the local consumers should be fully supplied locally. If steel is being shipped in, and if the fact is not explainable by cost differentials, monopoly is indicated.

Cross-hauling of identical products is a general symptom of failure of competition.

If identical or close bids on delivered steel are received from mills at different distances from the buyer, there is a presumption of monopoly, unless the facts can be explained by differences in cost of production. The only locations at which the receipt of closely similar bids, from diversely situated mills, can be disregarded as indicators are on the borderlines between producing areas.

EFFECTS OF IDENTICAL DELIVERED PRICES

To summarize the effects which we have reason to believe follow from the system of identical delivered prices: the wastes of cross-hauling and of excess capacity and high capital overhead are saddled on the consumer as if they were legitimate costs. Under the guise of freight costs, buyers located at a distance from a basing point even though they purchase from a mill in their own city are charged what amounts to a penalty.

Thus the advantage or disadvantage of location for many buyers is an artificial one, which may be altered by arbitrary private decree through a change in the basing point. Price competition in the steel industry, during all periods when the system is working, is eliminated. High prices, not in conformity with the law of supply and demand, place unreasonable limitations on use of the material. The effect, when combined with that of similar artificial prices in many other lines of production, is a depressed condition which can be kept from utter collapse only by repeated doses of public subsidy.

EFFECTS OF PARTIAL COMPETITION

The fixed-price system in steel sometimes slips momentarily, as it did in June 1938. When the momentary "competition" is cured and peace once more hovers over the industry, competitive practices still crawl here and there under the surface. But such vestigial remnants of competition are not enough to restore a healthy condition.

The industry is adjusted to a condition of monopoly. Its plants are located at points dictated by monopoly practices -- many of them are relics of the "Pittsburgh Plus", under which one principal basing point dominated the price structure.

A temporary restoration of competition is peculiarly painful to the industry because it cannot quickly adapt itself to an unprotected existence. Some of the independents, and some units of the larger companies, born and brought up under the "umbrella", fear to attempt a life of free competition. The desire to restore and maintain a monopolistic scale of prices is therefore a powerful influence in the industry. Moreover, such competition as does occur from time to time in the industry takes the form of sporadic discriminatory price cutting, in which the more powerful companies may use their power to discipline the weaker independents.

The Commission agrees with the industry that unfair forms of competition should not be substituted in place of monopoly. The Commission is opposed to both.

It is recognized that the industry will naturally fear the adjustments necessary for the establishment of healthy competition. The Commission notes in the published hearings of the Subcommittee of the Senate Committee on the Judiciary on S. 10 and S. 3072, March 10, 1936, the following statement in a letter from the late Mr. John Treanor of the Riverside Cement Corporation to Mr. B. H. Rader of the Cement Institute. Although speaking of the cement industry, Mr. Treanor expresses a fear of competition that is common to other industries as well. He says:

> "Do you think any of the arguments for the basing-point system which we have thus far advanced, will arouse anything but derision in and out of the Government? --- They amount to this -- that we price this way in order to discourage monopolistic practices and to preserve free competition, etc. This is sheer bunk and hypocrisy. The truth is, of course, --- that ours is an industry above all others that cannot stand free competition and that must systematically restrain competition or be ruined. We sell in a buyers' market all the time." 1/

In steel, as the Commission has observed, the normal and wholesome elimination of obsolete plants has not taken place. The industry has become addicted to monopoly as to a habit-forming drug. Its members fear nameless horrors if the drug should be withdrawn. Despite these fears, it remains true

---

1/ U. S. Senate Comm. on the Judiciary. Hearings of Subcommittee on S 10, S 3072, Mar. 10, 1936, p. 537.

that a cure is necessary if the steel industry, together with American business in general, is to be restored to health.

MONOPOLY LEADS TO GOVERNMENT CONTROL

To some extent the steel industry has eliminated obsolete plants, following the process of merger, the choice of plants to be closed being made arbitrarily by those in control of the merger. The Commission calls attention to the fact that here, on a private scale, we see the substitution of arbitrary decision for the impersonal decisions of the free market in an important industry. But the philosophy of the competitive theory which underlies capitalism is that natural death in industry, under the forces of fair competition, is more merciful than death by fiat, and also more clearly in accord with the public interest. It is fair and reasonable that the best man should win, and that the loser should be obliged to hunt for some other source of income. But it is offensive to peace and good morals that a man should be driven out of business by financial power, whether his throat is cut in a sudden attack or whether he is caputred first and killed later.

The experience of business in certain countries shows that if the natural elimination of the less efficient by competition is prevented, and elimination by private fiat is substituted, fiat will finally become the function of government. When the elimination of any members of an industry becomes the function of government, practices and injustices of an alarming kind have been observed.

The Commission points out that the drift toward monopoly involves the disquieting prospect that decisions, once the product of an impersonal economic necessity, may become the function of private or public dictators under conditions that offer the victims no avenue of escape.

The ability to decide on a price and hold to it regardless of demand, which is the essence of monopoly, is a prime factor in establishing the vicious circle of high prices, restricted production, and reduced employment so widely condemned as "scarcity economics". Starting with a price level designed to protect obsolete and unnecessary plants, and therefore having long periods of part-time operation and high overhead, the steel industry has established a habit of low production and high cost that seems to justify high prices. The demand is thereby restricted, and the vicious circle is completed by the continuance of high costs based on restricted output.

Moreover, in a product like steel which serves as raw material for other products, and for the machines with which other products are made, any unnecessary cost will be multiplied from step to step throughout industry so far as the influence of steel extends. The consumer is burdened with monopoly costs of steel multiplied several fold.

Unless and until this vicious circle of scarcity and unemployment can be broken, it is clear that it will act to grip the business world in paralysis. The practices of the steel industry alone may not ruin the capitalist system, but if they are reinforced by monopolistic practices in other industries, the total effect may come to be a strangulation of the blood-stream of trade. Monopoly, like counterfeiting, is a profitable

business for the first comer, but is subject to diminishing returns when it is more widely practiced.

There appears to be only one way in which the circle of high prices, low production and unemployment can be broken. That is through the restoration of price competition in accord with the ancient rule of capitalism, that at a low rate of production an industry ought to be losing money. The alternative is the abandonment of capitalism and experimentation with authoritarian controls.

Capitalist theory has always held that industry was expected to produce in the hope of profit, not that it was expected to stand idle at a profit. If the rewards of full-time industrial production are to be given equally for half-time work it is inevitable that labor and agriculture must also be supported on a half-time basis.

The Commission is not impressed with the argument that as steel output falls off and costs rise, it is necessary or desirable to maintain prices in an effort to break even. Such an argument violates the fundamental principles of capitalism. On the contrary, it is necessary and desirable to reduce prices in a falling market in an effort to increase tonnage and cut costs.

If free competition is not restored, the alternative will be public control of the details of business policy, including prices, wages, and production schedules. If private monopoly is permitted to spread through the greater part of the business system, public control appears to be unavoidable.

The Commission calls attention to the sequence of events in countries where the cartel form of monopoly has been encouraged. Centralization of power is the forerunner of a state, in which business, both small and large, is entirely subject to the direction of the government.

To the Commission the lesson seems clear that democratic liberty requires, as one of its foundation stones, the preservation and protection of a sufficient area of free capitalism to balance the necessary centralization of public utilities and other natural monopolies.

Freedom depends on preserving a wide field of opportunity for free initiative. Universal price controls constitute a repudiation of economic freedom and a demand for some form of authoritarian government.

COMPETITION

It is suggested that the relationship of competition, discrimination, and monopoly requires more definite clarification and legal definition in the public interest. Business in this country has passed through two stages on the way to the establishment of law and order. The first, or pioneer, stage was one of unrestrained discriminatory competition, in which financial power and influence were often used as weapons to destroy competitors. By a natural process of evolution, business men in certain industries organized private agreements for preventing competition of a kind unprofitable to themselves.

These private organizations for bringing order into business have not eliminated discrimination but have organized it in their own interest. Organized price controls have turned out to be monopolistic and oppressive to the consumer, and a source of depression and paralysis to trade. It is necessary now to pass on into a stage of established law, in which the required protection against discrimination is given by law to competitors and consumers alike.

Without an effective guarantee of protection against unfair and discriminatory attack, business men can hardly be expected to relinquish voluntarily their efforts to maintain private monopolistic systems for mutual self-protection.

As a basis for a sound policy of fair competition as distinguished from monopoly, it is believed to be essential to recognize the fundamental objectives of the free market as applied to steel. The free market is expected to give to the consumer the benefit of the lowest cost of production, and to reward the producer who eliminates waste. The market is expected to reward not only efficient production within the plant, but also efficiency in choice of location which minimizes transportation costs.

It is recognized that a market, unless policed to prevent discriminatory prices and other unfair methods, may fail to distinguish between efficiency and the advantages of financial power, and may give the rewards to power rather than to efficiency, as illustrated by the effects of unfair competition. Free markets, therefore, must be policed to prevent interference by dominant force whether financial or physical.

The market, finally, is supposed to provide a competitive mechanism that will automatically eliminate obsolete capital, either by forcing obsolete steel companies out of business or by forcing them to scale down their liabilities. Definitions of economic terms must be drawn not from tradition, or from the "custom of the trade" as shaped by immediate private advantage, but from experience with the effects of such practices on the proper functioning of the market.

The Commission believes that a condition of sound competition in the steel industry would be fair to the consumer, efficient as an item in national production, and as nearly as possible free of brutality or cutthroat activities.

Sound competition would be fair to the consumer because it would permit him to have any advantage of buying from the nearest mill, at a minimum cost for freight. It would be fair because the prices he must pay would be under constant competitive pressure, since his local mill could not arbitrarily raise its price without giving up its borderline customers to a rival.

Sound competition would be efficient for the nation because it would reduce wasteful cross hauling, the cost of which the nation must bear. It would promote decentralized location of mills, tending to favor the growth of numerous scattered mills close to customers, or in the shortest line between customer and raw material, an important item in terms of economic stability and of national defense.

Sound competition would be largely free of the abuses that have tended to give competition a bad name and have unfortunately driven many business men to seek shelter in monopolistic agreements. While the effect of sound competition would be to give rewards to efficiency and proper location combined, it would act upon the less efficient rather by slow pressure than by sudden violence — impersonally rather than by the exercise of personal and arbitrary power.

It appears evident that a condition of sound competition would be favorable to the restoration of free initiative in the steel industry. Initiative may be considered as embodied in two forms, the establishment of new mills in favorable locations, and an active attempt of existing mills to get business by reducing costs to the consumer. Both forms are stifled in the steel industry by the basing point system.

The protection of obsolete plants under the umbrella, by retaining excess capacity in the industry, impairs the incentive to build new and more efficient plants or to secure a better location.

Free initiative in the sense of trying to get business by offering advantages to the consumer is not only restricted under the basing point system, but is regarded as an offense, subject to the danger of retaliation by the industry.

If a mill merely follows the price leaders in a generally observed price system, it has relaxed from competition, and is trusting to some more subtle influence to provide its share of the business. Initiative means leading the price in its own area, and leading it down to the level at which the area of the local mill is effectively protected by freight costs against the loss of its profitable business. Initiative in the form of local self determination is seldom, if ever, found today in the steel industry.

Local initiative is frowned upon by the leaders of the industry. In 1930, a steel industry leader deplored that "several months ago price instability was permitted to come into our commercial relations". Another high steel executive, saying that price cutting kills business, added: "We have got to be honest." The potential punishment for any serious attempt to violate the basing point price system is price raiding, that soon brings the rebels to terms. It is vital to an understanding of this situation to make clear the ethics on which it is based.

Unethical conduct in selling steel includes those underhand devices by which a company offers material inducements to the buyer while pretending to stick to the concerted formula under which no bid at any given point of delivery will be better than any other bid at the same point. Such methods are abhorred by each member of the industry when used by others to his disadvantage. They violate the so-called "ethics" by which all the brotherhood is bound together against the consumer.

A chiseler is an unreconstructed capitalist who fails to obey the rules of the monopoly. He may also be dishonest in his methods, but chiseling and dishonesty are not identical, and the distinction is vital. To accuse a person of dishonesty may be necessary and in the public interest. To use the word chiseler, however, as meaning merely one who competes by reducing

prices without discrimination, is to attack the foundation of free initiative, and to invite autocracy.

The Commission holds no brief for deception, but is convinced that the so-called ethical principle which opposes price competition, forcing it into the form of underhand dealings, is itself contrary to the public interest. We believe that competition in steel should be brought into the open and protected against reprisals that threaten to drive it back into the dark. Suppression of competition breeds deception; the cure is not punishment but freedom and protection of individual rights.

Unfair competition, in addition to various forms of fraud and misrepresentation, includes specifically the use of discrimination for the purpose of price raiding. The Commission believes, as does a large share of the business world, that price raiding is a form of industrial violence; sound competition cannot be preserved unless price raiding is effectively prevented.

APPROACH TO THE PROBLEM

The Commission considers it to be essential to distinguish between protection of the markets and government control over business.

Protection works from the outside; its examination of business practices is only for the purpose of enforcing the rules of conduct as required for the protection of freedom. Control penetrates the interior of business, impairing or destroying the exercise of legitimate private initiative.

It is recognized that certain public utilities, including transportation, communication, and domestic power distribution, are in some measure required by technical necessity to operate as monopolies. As monopolies these industries have long been subject to a large measure of public control of their prices, wages, and production schedules; in some cases they have been taken into public ownership. The classification of industries as necessary monopolies should be, in the Commission's opinion, kept to as narrow limits as technical considerations permit.

It is suggested that in order to protect competitive business, monopolies must be held to exist only by sufferance in the capitalist system, and to be properly subject to public control in all details affecting the public interest.

Public control over monopolies is to be clearly distinguished from regulation of competitive practices, established to give protection to free competition in industry. The latter does not attempt to fix reasonable prices or to interfere with the countless details within each individual private enterprise.

There is reason to believe that most industrial operations are capable of attaining the highest degree of technical efficiency with plants of moderate size. Even though a modern steel plant may be physically large, it is relatively small in comparison with the total steel business of the United States. If monopoly is to be permitted in such industries, the

Commission can see no escape from the necessity of removing them from the privileges of free capitalist management and placing them under government control.

The Commission denies the necessity for such an outcome in the case of steel. We believe that to socialize the iron and steel industry, probably the leader of American business, would be a dangerous precedent. Such an example might easily spread far through the business world, tending to the breakdown of private enterprise and the rise of an authoritarian state.

The Commission therefore suggests that the steel industry, which it believes to be capable of reasonably efficient operation without monopoly, should be definitely separated in public policy from the "natural" monopolies, and treated as a free enterprise. As a free enterprise, it should be given an effective protection that will positively assure it of continuous, sound, and wholesome competition. The larger the area of business in which fair competition can be assured, the wider the margin of safety against the loss of both economic and political freedom.

The prevention of identical delivered prices for steel is, in the Commission's opinion, necessary for the restoration of competitive conditions. This involves the necessity for the elimination of the basing point system, since the purpose and effect of that system is to prevent price competition. It will also be necessary to prohibit any variation or substitute for the basing point system, the effect of which is to establish identical delivered prices.

It is submitted that the principles to be applied to the steel industry should be those laid down in the Pittsburgh Plus case when the respondents were ordered to cease and desist:

> "From quoting for sale or selling in the course of interstate commerce their said rolled steel products upon any other basing point than that where the products are manufactured or from which they are shipped.
>
> "From selling or contracting for the sale of or invoicing such steel products in the course of interstate commerce without clearly and distinctly indicating in such sales, or upon such contracts or invoices, how much is charged for such steel products f.o.b. the producing or shipping point, and how much is charged for the actual transportation of such products, if any, from such producing or shipping point to destination."

The open f.o.b. mill price system is essential, in the Commission's opinion, for the maintenance of fair competition in steel. To fulfill this purpose, however, there must be no obligation to maintain any announced price for any time whatsoever. Further detailed regulations required for the protection of any open market, need not be listed at length in this preliminary discussion.

The fact that sound conditions can be restored only with considerable trouble and expense is not a sufficient reason for doing nothing, nor for adopting irritating but ineffective half measures. The capitalist system

of free initiative is not immortal, but is capable of dying and of dragging down with it the system of democratic goverment. Monopoly constitutes the death of capitalism and the genesis of authoritarian government.

The steel industry is a focal center of a monopolistic infection which, if not eradicated, may well cause the death of free capitalistic industry in the United States. This Commission is invested by law with the duty of assisting in the protection of competitive capitalism and in its restoration to health. Whatever such protection may cost, we believe it will be less costly to capitalism and to freedom than any alternative.

---oOo---

COLUMBIA UNIVERSITY LIBRARIES

This book is due on the date indicated below, or at the expiration of a definite period after the date of borrowing, as provided by the rules of the Library or by special arrangement with the Librarian in charge.

DATE BORROWED	DATE DUE	DATE BORROWED	DATE DUE
APR 2 7 1945			
5/4			
SEP 9 1948	9/16		
OCT 1 7 1949	10/31		
MAR 1 1950	3/15		
Apr17'53			
JAN 4 1960			
JAN 9 1962			
[redacted]			
MAY 15 '68 FAC			

C28(1141)M100

COLUMBIA UNIVERSITY LIBRARIES
0044267428

D320 Uw375

MSH 03214

NEH

SEP 01 1994

MAY 31 1943

END OF
TITLE